

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03  
NSC-05 PA-02 PRS-01 SS-15 CEA-01 STR-04 IO-13 /127 W  
-----181848Z 082042 /65

R 181707Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4800  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY  
17)

REF.: BONN 542 AND BONN 20622 OF DECEMBER 7, 1976

1. SUMMARY: ADJUSTMENT OF BUNDESBANK FOREIGN ASSETS  
AND LIABILITIES AT YEAR-END TO REFLECT EXCHANGE RATE  
MOVEMENTS PRODUCES DM 7.5 BILLION BOOK LOSS. U.S.  
DOLLAR CONTINUES STRONG ON GERMAN FOREIGN EXCHANGE  
MARKETS AND GERMAN MONEY MARKET REMAINS TIGHT. BANK  
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LIQUIDITY WAS SUBSTANTIALLY INCREASED (DM 6.9 BILLION)  
AT THE END OF DECEMBER DUE PRIMARILY TO FEDERAL AND  
STATE GOVERNMENT SPENDING. END SUMMARY.

2. BUNDESBANK DM REVALUATION LOSS:  
AT THE END OF 1976 THE BUNDESBANK ADJUSTED THE VALUE  
OF ITS FOREIGN ASSETS AND LIABILITIES DOWNWARD. THE

VALUATION OF GOLD HOLDINGS REMAINED UNCHANGED AT \$42.2 PER OUNCE. THE ADJUSTMENT WAS NECESSARY BASICALLY BECAUSE OF THE 11 PERCENT REVALUATION OF THE DEUTSCHE-MARK AGAINST THE DOLLAR IN THE COURSE OF 1976. THE NEW VALUATION PRODUCED A DM 7.5 BILLION BOOK LOSS FOR THE BUNDESBANK. THE BUNDESBANK EXPECTS HOWEVER THAT ITS 1976 PROFIT RESULTING FROM NORMAL TRANSACTIONS WOULD REDUCE THIS LOSS TO DM 3 BILLION, WHICH IS THE AMOUNT CARRIED FORWARD INTO 1977. AT THE END OF 1976 THE COMPONENTS OF THE BUNDESBANK'S NET FOREIGN POSITION (AT THEIR NEW VALUATION) WERE REMARKEDLY SIMILAR TO THOSE PREVAILING ON DECEMBER 31, 1975:

DECEMBER 31

-----  
 1975      1976      CHANGE  
 -----

(DM BILLION)

A) MONETARY RESERVES

GOLD	14.0	14.0	-
IMF POSITION	9.3	10.7	1.4
FOREIGN EXCHANGE	51.3	52.0	0.7
FOREIGN LIABILITIES	1.9	2.8	0.9
TOTAL	72.7	73.9	1.2

B) CREDITS AND OTHER

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CLAIMS ON FOREIGN

COUNTRIES	11.8	11.8	-
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C) NET FOREIGN

POSITION

(A PLUS B)	84.5	85.8	1.3
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3. BUNDESBANK ON 1977 MONETARY GROWTH TARGET:

IN ITS JANUARY MONTHLY REPORT THE BUNDESBANK DEFENDED ITS 8 PERCENT TARGET ESTABLISHED FOR THE GROWTH OF CENTRAL BANK MONEY (CBM) IN 1977 (AVERAGE 1977 OVER AVERAGE 1976) AGAINST CRITICISM THAT THE TARGET IS TOO HIGH. THE BUNDESBANK STATED THAT IT BASED ITS TARGET ON A 1977 INCREASE IN NOMINAL GNP OF 9 PERCENT AND REAL GNP OF 5 PERCENT. SINCE THE BANK ANTICIPATES A 1 PERCENT INCREASE IN THE VELOCITY OF MONEY IN CIRCULATION AN 8 PERCENT CBM INCREASE IN 1977 IS APPROPRIATE. THE BANK POINTED OUT THAT IN THE SECOND HALF OF 1976 CENTRAL BANK MONEY INCREASED SUBSTANTIALLY SO THAT, ON

AVERAGE, IT WAS 9.2 PERCENT HIGHER THAN A YEAR AGO.  
AT THE YEAR-END CBM (SEASONALLY ADJUSTED) AMOUNTED TO  
DM 120.2 BILLION AS COMPARED WITH DM 120.1 BILLION IN  
NOVEMBER. THE BUNDESBANK EMPHASIZED THAT THIS YEAR-END

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NSC-05 PA-02 PRS-01 SS-15 STR-04 CEA-01 IO-13 /127 W  
-----181849Z 082076 /65

R 181707Z JAN 77

FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4801  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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LEVEL, EVEN IF CBM WOULD NOT INCREASE FURTHER IN 1977,  
WOULD MEAN A 4.2 PERCENT GROWTH IN 1977 (AVERAGE 77  
OVER AVERAGE 76). A 1977 GROWTH TARGET OF ONLY 6 1/2  
PERCENT (AS WAS PROPOSED BY THE COUNCIL OF ECONOMIC  
ADVISORS AND THE ASSOCIATION OF GERMAN SAVINGS BANKS)  
MEANS THAT THE GROWTH OF CENTRAL BANK MONEY WOULD,  
IN THE COURSE OF 1977, HAVE TO DECLINE TO LESS THAN  
5 PERCENT AT THE YEAR-END. IN FACT, EVEN THE MAINTENANCE

NANCE OF THE BUNDESBANK'S 8 PERCENT GROWTH GOAL (ASSUM-  
ING CBM WOULD INCREASE ON A STRAIGHT LINE IN 1977) RE-  
QUIRES A REDUCTION IN 1977 IN CBM GROWTH TO 6-7 PER-  
CENT (FOURTH QUARTER 1977 OVER FOURTH QUARTER 1976).  
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#### 4. FOREIGN EXCHANGE MARKET:

THE DOLLAR CONTINUED TO STRENGTHEN AGAINST THE DEUTSCHE-  
MARK OVER THE PAST REPORTING WEEK. THE ANNOUNCEMENT OF  
PRESIDENT-ELECT CARTER'S ECONOMIC STIMULATION PROGRAM  
AND A FURTHER WIDENING IN FAVOR OF EURO-DOLLARS OF THE  
INTEREST DIFFERENTIAL BETWEEN EURO-DM AND EURO-DOLLAR  
INVESTMENTS APPEAR TO BE THE BASIC FACTORS FAVORING  
THE DOLLAR. DURING THE REPORTING WEEK FRANKFURT SPOT  
AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

##### FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MOS

JAN 11	2.3925	2.3823	2.3810	-0.4	-0.6
12:5	2.3745	2.3741	2.3800	-0.1	-0.3
13	2.3775	2.3860	2.3900	-0.5	-0.5
14	2.3910	2.3929	2.3950	-0.9	-0.6
17	2.3980	2.3987	2.3945	-0.4	-0.5
18	2.3965	2.3975	N.A.	N.A.	N.A.

#### 5. MONEY MARKET:

THE GERMAN MONEY MARKET REMAINED TIGHT WITH CALL MONEY  
REMAINING AT ABOUT THE LEVEL OF THE 4 1/2 PERCENT  
LOMBARD RATE. ONE-MONTH AND THREE-MONTH MONEY RATES,  
WHICH EASED CONSIDERABLY DURING THE PAST WEEK, DE-  
CLINED ONLY INSIGNIFICANTLY. THE MINOR MID-JANUARY  
TAX DATE CURRENTLY UNDER WAY APPEARS TO BE A FACTOR  
CONTRIBUTING TO THE CONTINUED TIGHTNESS. DURING THE  
REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DE-  
VELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

JAN 11	4.5-4.7	4.70	4.70
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12	4.5-4.7	4.70	4.70
13	4.5-4.7	4.70	4.70

14	4.4-4.6	4.60	4.70
17	4.5-4.7	4.60	4.70

6. BUNDESBANK FOREIGN POSITION:

IN THE PERIOD DECEMBER 24-31 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.6 BILLION (EXCLUDING THE DM 7.5 BILLION DECREASE IN THIS POSITION DUE TO THE NEW VALUATION -- SEE PARAGRAPH 1 ABOVE). A BREAKDOWN OF THE INCREASE BY INDIVIDUAL COMPONENTS OF THE BUNDESBANK'S FOREIGN POSITION IS NOT POSSIBLE SINCE THE BUNDESBANK'S DECEMBER 31 BALANCE SHEET COMBINES CHANGES RESULTING FROM THE NEW VALUATION AND FROM NORMAL FOREIGN TRANSACTIONS.

7. BANK LIQUIDITY:

IN THE PERIOD DECEMBER 24-31 BANK LIQUIDITY INCREASED SUBSTANTIALLY BY DM 6.9 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A SUBSTANTIAL DM 7.6 BILLION DECLINE IN OFFICIAL ASSETS HELD AT THE BUNDESBANK AND DM 1.7 BILLION OF BORROWINGS OF THE FEDERAL GOVERNMENT AT THE BUNDESBANK. THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION FURTHER INCREASED LIQUIDITY. BASIC FACTORS REDUCING LIQUIDITY WERE A DM 1.7 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND DM 0.4 BILLION OF SALES OF MONEY MARKET PAPER BY THE BUNDESBANK. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 0.9 BILLION. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY DM 6.5 BILLION AND REDISCOUNT BORROWINGS BY DM 0.4 BILLION. AT THE END OF DECEMBER, THE BANKS' LOMBARD CREDITS FROM THE BUNDESBANK WERE, AT DM 6.1 BILLION, STILL VERY HIGH AS COMPARED WITH PRACTICALLY ZERO ON NOVEMBER 15, 1976.

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NSC-05 PA-02 PRS-01 SS-15 CEA-01 STR-04 IO-13 /127 W  
-----181850Z 082090 /65

R 181707Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4802  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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8. FEDERAL GOVERNMENT CENTRAL BANK ASSETS:  
FROM DECEMBER 24-31 ASSETS HELD BY THE FEDERAL GOVERN-  
MENT AT THE BUNDESBANK DECLINED BY DM 3.3 BILLION TO  
DM 0.3 BILLION. AT THE SAME TIME THE FEDERAL GOVERNMENT  
BORROWED FROM THE BUNDESBANK DM 1.7 BILLION. OVER THE  
SAME PERIOD BUNDESBANK ASSETS OF THE STATE GOVERNMENTS  
LIKEWISE DECLINED BY DM 4.7 BILLION TO DM 2.1 BILLION  
AND SOME STATE GOVERNMENTS BORROWED A MINOR AMOUNT  
(DM 144 MILLION) FROM THE BUNDESBANK. THUS, ON  
DECEMBER 31 ASSETS OF FEDERAL AND STATE GOVERNMENTS  
TOTALLED DM 2.4 BILLION WHILE THEIR BORROWINGS FROM THE  
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BUNDESBANK AMOUNTED TO DM 1.8 BILLION. THIS COMPQW  
WITH ASSETS OF FEDERAL AND STATE GOVERNMENTS OFFH 10.3  
BILLION AND NO BORROWINGS AS OF DECEMBER FM

9. BOND MARKET: TOWARDS THE END OF THE TRADING WEEK  
THE SUBSTANTIAL PRICE INCREASES FOR GOVERNMENT BONDS  
PREVAILING SINCE THE BEGINNING OF THE NEW YEAR CAME  
TO A HALT. THIS, HOWEVER, APPEARS TO REFLECT A CON-  
SOLIDATION STAGE RATHER THAN A BASIC CHANGE IN MARKET C  
CONDITIONS. ACCORDING TO THE PRESS AVERAGE CURRENT  
YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MA-

TURITY ARE AS FOLLOWS:

#### REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
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#### YIELD TO MATURITY

JAN 14	5.10	6.30	6.75	7.00	7.10	7.20
JAN 7	5.15	6.45	6.90	7.10	7.25	7.35

THE FEDERAL GOVERNMENT REPORTEDLY RESUMED OFFERING OF SCHULDSCHNEINE (PROMISSORY NOTES) (SEE BONN 542). THE GOVERNMENT, HOWEVER, OFFERED ONLY NOTES WITH LONGER MATURITIES (10-12 YEARS) CARRYING EFFECTIVE YIELDS OF 7.10 PERCENT TO 7.25 PERCENT. ACCORDING TO THE FINANCIAL PRESS DEMAND FOR SUCH NOTES WAS RATHER WEAK DUE TO THE RELATIVELY LOW EFFECTIVE YIELDS.

THE SHELL INTERNATIONAL FINANCE N.V., CURACAO, PLANS TO OFFER A DM 200 MILLION LOAN. THE COUPON WILL BE 6 3/4 PERCENT AND THE MATURITY 12 YEARS WITH RE-PAYMENT TO BEGIN AFTER 7 YEARS. THE ISSUE PRICE HAS NOT YET BEEN DECIDED. THE BANQUE FRANCAISE DU COMMERCE EXTERIEUR (BFCE) PLANS TO OFFER A DM 100 MILLION LOAN. THE COUPON IS EXPECTED TO BE 7 PERCENT, THE MATURITY UNCLASSIFIED

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10 YEARS WITH REPAYMENT BEGINNING AFTER 5 YEARS.

10. DOLLAR 150 MILLION CREDIT FOR HUNGARY:  
ON JANUARY 18, THE CONTRACT FOR THE \$150 MILLION CREDIT FOR HUNGARY (SEE BONN 20622 OF DECEMBER 7, 1976) WAS SIGNED IN FRANKFURT. THE CREDIT WILL BE GRANTED BY AN INTERNATIONAL BANKING CONSORTIUM LEAD BY THE DEUTSCHE GENOSSENSCHAFTSBANK AND INCLUDING MAJOR COOPERATIVE BANKS IN FRANCE, THE NETHERLANDS, AUSTRIA AND SWITZERLAND. THE INTEREST RATE WILL BE 1.125 PERCENT ABOVE LIBOR, THE MATURITY 5 YEARS.

11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

#### NON-SEASONALLY ADJUSTED DATA

	OCTOBER	NOVEMBER	DECEMBER
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#### AUTO REGISTRATIONS

(THOUSANDS)	184,462	177.124	-
(PERCENT CHANGE			
OVER 1975)	(MINUS 10.4)	(14.5)	-

INDUSTRIAL PRODUCER

PRICES (PERCENT

CHANGE OVER 1975) 4.6 4.5 4.3

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, FINANCIAL STABILITY, FOREIGN EXCHANGE HOLDINGS, FOREIGN EXCHANGE RATES, LIQUIDITY (MONETARY), ECONOMIC REPORTS  
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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION EUR  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 BONN 542, 77 BONN 20622  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 27-Sep-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3576157  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 17)  
**TAGS:** EFIN, GE  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/3f31dbd5-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009